

ELM RIVER TOWNSHIP SCHOOL DISTRICT
TOIVOLA, MICHIGAN

FINANCIAL STATEMENTS
WITH SUPPLEMENTAL INFORMATION

June 30, 2008

ELM RIVER TOWNSHIP SCHOOL DISTRICT

JUNE 30, 2008

ADMINISTRATION

Superintendent Dennis Harbour

BOARD OF EDUCATION

President Jeanmarie Hagan

Vice President Michael Mallow

Treasurer Wendy Klemett

Secretary Susan Mallow

Trustee Denise Saari

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INDEPENDENT AUDITOR'S REPORT

Board of Education
Elm River Township School District
Toivola, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund information of Elm River Township School District as of and for the year then ended June 30, 2008, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Elm River Township School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Michigan School Auditing Manual*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Elm River Township School District as of June 30, 2008, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 24, 2008 on our consideration of the Elm River Township School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis and budgetary comparison information on pages 6 through 11 and 24 through 25, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express any opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Elm River Township School District's basic financial statements. The introductory section, combining and individual non-major fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual non-major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Bruce A. Rukkila, CPA, PC

Certified Public Accountants

October 24, 2008

Elm River Township School District
Management's Discussion and Analysis
June 30, 2008

This section of Elm River Township School District's annual financial report presents management's discussion and analysis of the School District's financial performance during the year ended June 30, 2008. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

Overview of the Financial Statements

The annual report consists of a series of financial statements including other requirements as follows:

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.
- The Government-wide Financial Statements consists of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of the District as a whole and represent an overall view of the District's finances.

Statement of Net Assets and the Statement of Activities

These statements provide information that help determine how the District is doing financially as a result of the year's activities. The statements are shown using a full accrual basis.

The District's net assets and the changes in the net assets during the year are reported by these two statements. Increases or decreases in the District's net assets is one way to determine if the financial position of the District is improving or deteriorating. However, non-financial factors will need to be considered as well to determine the overall financial position of the District.

- Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. These statements also report the District's operations in more detail than the Government-wide Financial Statements by providing information about the most significant funds.

The fund level financial statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent that they are normally expected to be paid with current financial resources.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the District's major instructional support activities are reported in the General Fund. Additional activities are reported in the School Food Service fund.

Major Funds: Under GASB Statement 34, the audit focus has shifted from type of governmental fund to major funds. Major funds are the largest funds in terms of assets, liabilities, revenues or expenses/expenditures. This allows the reader to see more detailed activity of the major funds. For the District, the General Fund and the School Food Service Fund meets this requirement.

Non-major Funds: There are no non-major funds for the District.

Elm River Township School District
Management's Discussion and Analysis
June 30, 2008

Overview of the Financial Statements - Continued

- Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.
- Required supplementary information, other than Management Discussion and Analysis, provides information about the required budgetary comparison information on the general fund and the school service fund.
- Other supplementary information provides detailed information about the General and School Food Service Funds.

Significant Transactions and Changes in Individual Funds

The overall financial position of the individual Governmental funds of the District did not change significantly from the previous year. A comparison of revenues/transfers, expenditures/transfers and fund balances is as follows:

	<u>Current Year</u>	<u>Prior Year</u>	<u>Change</u>
General Fund:			
Revenues/Transfers	\$ 259,463	\$ 222,992	\$ 36,471
Expenditures/Transfers	\$ 224,264	\$ 226,050	\$ (1,786)
Fund Balance	\$ 128,539	\$ 93,340	\$ 35,199
School Food Service Fund:			
Revenues/Transfers	\$ 25,298	\$ 25,421	\$ (123)
Expenditures/Transfers	\$ 24,970	\$ 23,187	\$ 1,783
Fund Balance	\$ 5,337	\$ 5,009	\$ 328

General Fund - The increase in revenue from prior year is due mainly to property taxes.

School Food Service Fund - There were no significant fluctuations from prior year.

Elm River Township School District
Management's Discussion and Analysis
June 30, 2008

Overview of the Financial Statements - Continued

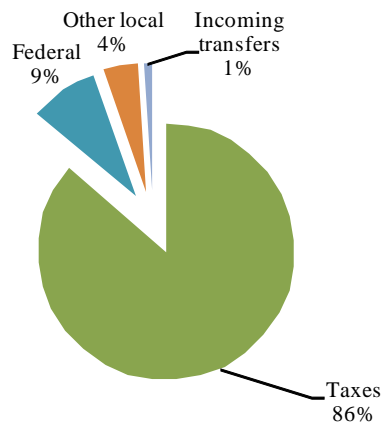
Summary of Net Assets		
	<u>2008</u>	<u>2007</u>
Assets		
Current and other assets	\$ 179,869	\$ 144,745
Capital assets - Net of accumulated depreciation	33,822	37,159
Total Assets	<u>\$ 213,691</u>	<u>\$ 181,904</u>
Liabilities		
Current liabilities	\$ 45,993	\$ 46,396
Total Liabilities	<u>45,993</u>	<u>46,396</u>
Net Assets		
Invested in capital assets	33,822	37,159
Unrestricted	133,876	98,349
Total net assets	<u>167,698</u>	<u>135,508</u>
Total Liabilities and Net Assets	<u>\$ 213,691</u>	<u>\$ 181,904</u>

Results of Operations in Governmental Activities		
	<u>2008</u>	<u>2007</u>
Program Revenue:		
Charges for services	\$ 1,577	\$ 1,564
Grants and contributions	28,511	35,446
General Revenue:		
Property taxes	223,705	179,279
Interest and investment earnings	4,651	3,159
Special item - gain/loss on sale of asset	87	0
Transfers	2,834	3,282
Other	6,169	7,840
Total Revenue	<u>267,534</u>	<u>230,570</u>
Functions/Program Expenses		
Instruction	101,616	95,718
Support services	108,584	105,846
School food services	24,970	23,187
Total Expenses	<u>235,170</u>	<u>224,751</u>
Change in Net Assets	32,190	7,861
Net Assets - Beginning	135,508	127,647
Net Assets - Ending	<u>\$ 167,698</u>	<u>\$ 135,508</u>

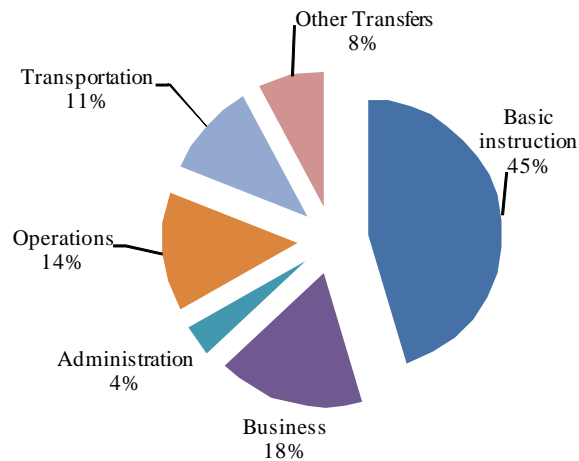
**Elm River Township School District
Management's Discussion and Analysis
June 30, 2008**

The following charts highlight the District's General Fund activities:

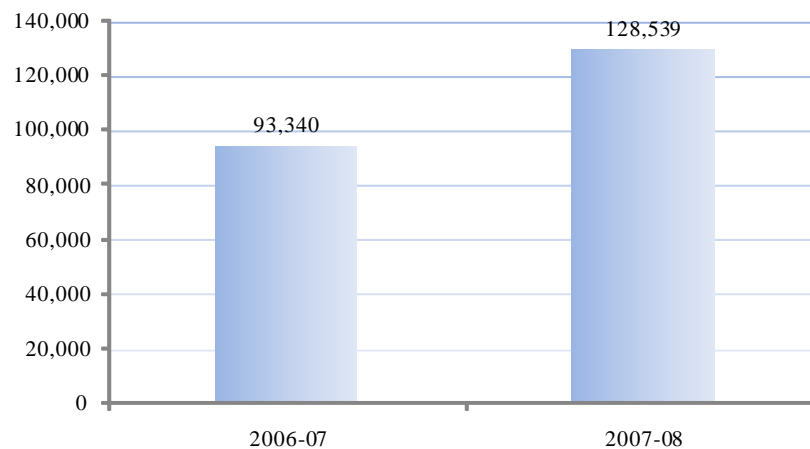
Revenues



Expenditures



Fund Balance



**Elm River Township School District
Management's Discussion and Analysis
June 30, 2008**

General Fund Budgetary Highlights

	Original Budget	Final Budget	Actual	Variance with final budget	% Variance
Revenues	\$ 211,800	\$ 264,000	\$ 256,527	\$ (7,473)	-2.9%
Expenditures					
Instruction	\$ 102,476	\$ 102,476	\$ 99,653	\$ 2,823	2.8%
Supporting services	105,465	109,465	107,399	2,066	1.9%
Total expenditures	\$ 207,941	\$ 211,941	\$ 207,052	\$ 4,889	2.4%
Other financing sources (uses)	\$ (13,253)	\$ (14,753)	\$ (14,276)	\$ (477)	3.3%

The District received more tax money and is not reflected in the original budget.

Actual revenue was less than final budget due to the District not accurately estimating delinquent taxes.

Capital Assets

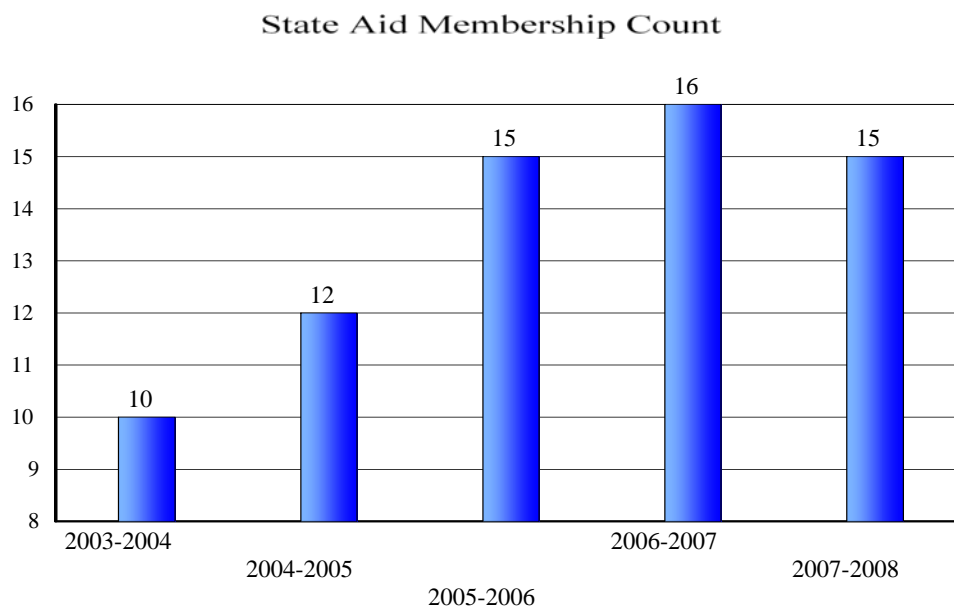
The District's net investment in capital assets decreased by \$2,140 during the fiscal year. A riding lawn mower was sold for \$102 and a laptop computer was disposed.

Additional information on the District's capital assets can be found on page 20 of this report.

Known Facts, Decisions, or Conditions Having Significant Affect on Future Operations

Elm River Township School District operates on millage levy from non-homestead properties, with State Education Tax levy from homestead properties going to Michigan State Aid Fund and remaining there.

The following graph depicts a decrease of 1 student enrolled from the previous year, using the State Aid Membership Count.



**Elm River Township School District
Management's Discussion and Analysis
June 30, 2008**

Contacting the District's Financial Management

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Business Office, Elm River Township School.

ELM RIVER TOWNSHIP SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2008

	<u>Governmental Activities</u>
ASSETS:	
CURRENT ASSETS:	
Cash and cash equivalents	\$ 172,612
Taxes receivable	6,262
Accounts receivable	995
TOTAL CURRENT ASSETS	<u>179,869</u>
NON-CURRENT ASSETS:	
Capital assets	55,229
Less: Accumulated depreciation	<u>(21,407)</u>
TOTAL NON-CURRENT ASSETS	<u>33,822</u>
TOTAL ASSETS	<u>\$ 213,691</u>
LIABILITIES:	
CURRENT LIABILITIES:	
Accounts payable	\$ 185
Accrued expenses	6,001
Due to other governmental units	<u>39,807</u>
TOTAL CURRENT LIABILITIES	<u>45,993</u>
NET ASSETS	
Invested in capital assets	33,822
Unreserved	<u>133,876</u>
TOTAL NET ASSETS	<u>167,698</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 213,691</u>

The accompanying notes to financial statements are an integral part of this statement.

ELM RIVER TOWNSHIP SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
Year Ended June 30, 2008

	<u>Program Revenues</u>			<u>Governmental Activities</u>
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
<u>FUNCTIONS/PROGRAMS</u>				
Government Activities:				
Instruction and instructional support	\$ 101,616	\$ -	\$ 22,002	\$ (79,614)
Support services	108,584	-	-	(108,584)
School food service	24,970	1,577	6,509	(16,884)
Total Governmental Activities	<u>\$ 235,170</u>	<u>\$ 1,577</u>	<u>\$ 28,511</u>	<u>(205,082)</u>
General Revenues:				
Property taxes, levied for general operations				223,705
Interest and investment earnings				4,651
Special item - gain/loss on sale of asset				87
Other				6,169
Transfers				<u>2,834</u>
Total general revenues and transfers				<u>237,272</u>
Change in Net Assets				32,190
Net Assets - Beginning				<u>135,508</u>
Net Assets - Ending				<u>\$ 167,698</u>

The accompanying notes to financial statements are an integral part of this statement.

ELM RIVER TOWNSHIP SCHOOL DISTRICT
GOVERNMENTAL FUNDS
BALANCE SHEET
June 30, 2008

	<u>General</u>	<u>School Food Service</u>	<u>Total Governmental Funds</u>
ASSETS:			
Cash and cash equivalents	\$ 167,423	\$ 5,189	\$ 172,612
Taxes receivable	6,262	-	6,262
Accounts receivable	995	-	995
Due from other funds	-	148	148
TOTAL ASSETS	<u>\$ 174,680</u>	<u>\$ 5,337</u>	<u>\$ 180,017</u>
LIABILITIES:			
Accounts payable	\$ 185	\$ -	\$ 185
Accrued expenses	6,001	-	6,001
Due to other funds	148	-	148
Due to other governmental units	39,807	-	39,807
TOTAL LIABILITIES	<u>46,141</u>	<u>-</u>	<u>46,141</u>
FUND BALANCES:			
Unreserved	<u>128,539</u>	<u>5,337</u>	<u>133,876</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 174,680</u>	<u>\$ 5,337</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	<u>33,822</u>
Net assets of governmental activities	<u>\$ 167,698</u>

The accompanying notes to financial statements are an integral part of this statement.

ELM RIVER TOWNSHIP SCHOOL DISTRICT
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
Year Ended June 30, 2008

	General	School Food Service	Total Governmental Funds
REVENUES			
Local sources	\$ 234,525	\$ 1,577	\$ 236,102
State sources	-	1,778	1,778
Federal sources	22,002	4,731	26,733
Total revenues	<u>256,527</u>	<u>8,086</u>	<u>264,613</u>
EXPENDITURES			
Instruction	99,653	-	99,653
Supporting services	107,399	-	107,399
School service	-	24,970	24,970
Total expenditures	<u>207,052</u>	<u>24,970</u>	<u>232,022</u>
Excess (deficiency) of revenue over expenditures	<u>49,475</u>	<u>(16,884)</u>	<u>32,591</u>
OTHER FINANCING SOURCES (USES)			
Operating transfers in (out)	(17,212)	17,212	-
Incoming transfers - other schools	2,834	-	2,834
Proceeds from sale of capital asset	102	-	102
Total other financing sources (uses)	<u>(14,276)</u>	<u>17,212</u>	<u>(2,936)</u>
NET CHANGE IN FUND BALANCE	35,199	328	35,527
FUND BALANCES - BEGINNING OF YEAR	<u>93,340</u>	<u>5,009</u>	
FUND BALANCES - END OF YEAR	<u>\$ 128,539</u>	<u>\$ 5,337</u>	

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures in the statement of activities, these costs are capitalized and allocated over their estimated useful lives as depreciation	<u>(3,337)</u>
Change in net assets of Governmental Activities	<u>\$ 32,190</u>

The accompanying notes to financial statements are an integral part of this statement.

ELM RIVER TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - June 30, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Elm River Township School District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant District accounting policies are described below.

REPORTING ENTITY

Elm River Township Schools (the "District") is governed by the Elm River Township School Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local and federal government sources and must comply with all the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement Numbers 14 and 39.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District's government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other unrestricted items are not included as program revenues and are reported as general revenues.

In the government-wide statement of net assets, the governmental activities column is presented on a consolidated basis and is reported on a full accrual, economic resource basis, which recognizes all long-term assets. The District's net assets are reported in two parts – invested in capital assets and unrestricted net assets.

The District first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues and other revenues). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenue must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The District does not allocate indirect costs.

The government-wide focus is more on the sustain ability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

ELM RIVER TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - June 30, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental Funds - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Property taxes, intergovernmental grants, and interest income associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government unit.

The School District reports the following major governmental funds:

General Fund - The General Fund is the general operating fund and accordingly, it is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - Special Revenue Funds are used to account for the activities of specific school service revenue sources such as the School Food Service.

Accrual Method - The government-wide financials statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION

Modified Accrual Method - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Property taxes, federal aid, and interest associated with the current fiscal period are all considered to susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

State Revenue - The State of Michigan adopted a foundation grant approach which provides for a specific annual amount of revenue per student based on a state wide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2008, the foundation allowance was based on the average of pupil membership counts taken in February and September of 2007.

ELM RIVER TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - June 30, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. Based on the District's non-homestead tax value and the student membership, the district is out of formula.

2007-08 Foundation		\$	8,399.00
Less local support:			
Non-Homestead Tax Value	12,700,801		
Multiplied by mills	18.0		
Total local support	228,614.42		
Divided by General Education K-6	14.67		
Calculated Local Support			15,583.80
Out of Formula		\$	<u><u>(7,184.80)</u></u>

Other Accounting Policies

Deposits - Cash and equivalents include amounts in demand deposits and certificates of deposit.

Property Taxes - Property taxes levied by the District are collected by Elm River Township and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and are due upon receipt of the billing by the taxpayer and becomes a lien on the first day of the levy year. The actual due date is September 15, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2008, the District levied 18 mills of non-homestead assessed value for General Fund.

Receivables and Payables - Activity between funds are reported as "due to/from other funds."

All receivables, including property taxes receivable, are shown net of allowance for uncollectibles, if any.

Inventory - The District utilizes the purchase method of recording inventories of materials and supplies. Under the purchase method, inventories are recorded as expenditures when they are purchased.

Capital Assets - Capital assets, which include land, buildings, equipment, site improvements, and vehicles are reported in the applicable governmental activities column in the district-wide financial statements. Fixed assets are defined by the government as assets with an initial individual cost of more than \$1,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair & maintenance that do not add to the value or materially extend asset lives are not capitalized.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20-50 years
Buses and other vehicles	5-10 years
Furniture and other equipment	5-10 years

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

ELM RIVER TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - June 30, 2008

NOTE B - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The School District follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The Business Manager submits to the School Board a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. A public hearing is held to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978) enacted at a regular meeting by School Board approval. The Act provides that a local unit shall not incur expenditures in excess of the amount appropriated.
4. During the year the budget is monitored, and amendments to the budget resolution are made when deemed necessary.
5. Budget appropriations lapse at the end of the fiscal year.

In the body of the financial statements, the School's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. Violations, if any, for the general fund are noted in the required supplementary information section.

NOTE C - DEPOSITS

At year-end, the School District's deposits were reported in the basic financial statements as governmental activities as cash equivalents in the amount of \$172,612.

Deposit Risk

Credit Risk – State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investments pools as identified in the list of authorized investments below. The District's investment policy does not have specific limits in excess of state law on investment credit risk. The rating for each investment are identified above for investments held at year end.

Custodial Credit Risk - Deposits – In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. State law does not require and the District does not have a policy for deposit custodial credit risk. As of June 30, 2008, \$44,252 of the District's bank balance of \$172,753 was exposed to custodial credit risk because it was uninsured and uncollateralized.

ELM RIVER TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - June 30, 2008

NOTE D - CAPITAL ASSETS

Capital Asset activity of the School District's governmental activities was as follows:

	Balance 06/30/07	Additions	Deletions	Balance 06/30/08
Land	\$ 11,740	\$ 0	\$ 0	\$ 11,740
Building and additions	8,141	0	0	8,141
Improvements other than building	5,950	0	0	5,950
Equipment and furniture	22,734	0	2,140	20,594
Buses	8,804	0	0	8,804
	<u>45,629</u>	<u>\$ 0</u>	<u>\$ 2,140</u>	<u>43,489</u>
Accumulated depreciation:				
Building and additions	2,362	\$ 389	\$ 0	2,751
Improvements other than building	2,849	280	0	3,129
Equipment and furniture	13,990	1,380	1,952	13,418
Buses	1,009	1,100	0	2,109
	<u>20,210</u>	<u>\$ 3,149</u>	<u>\$ 1,952</u>	<u>21,407</u>
Net capital assets being depreciate	25,419			22,082
Net capital assets	<u>\$ 37,159</u>			<u>\$ 33,822</u>

Depreciation expense was charged to governmental activities of the School District as follows:

Instruction	\$ 1,963
Transportation	1,101
Operations	85
TOTAL	<u>\$ 3,149</u>

NOTE E - INTER-FUND RECEIVABLES, PAYABLES, AND TRANSFERS

Amounts due from (to) other funds represent the balance of monies due from or to other funds for expenditures made or fund balance transfers approved. The amounts of inter-fund receivables and payables as of June 30, 2008 are as follows:

Fund	Inter-fund Payable	Fund	Inter-fund Receivable
General	<u>\$ 148</u>	School Service	<u>\$ 148</u>
Fund	Transfer Out	Fund	Transfer In
General	<u>\$ 17,212</u>	School Service	<u>\$ 17,212</u>

NOTE F - PAYABLES

Accounts payable and accrued liabilities as of June 30, 2008, for the District are as follows:

	General
Fund Financial Statements:	
Accounts payable	\$ 185
Salaries payable	1,102
Accrued expenses	4,899
	<u>\$ 6,186</u>

ELM RIVER TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - June 30, 2008

NOTE G - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN

Plan Description

The District contributes to the Michigan Public School Employees' Retirement System (MPERS), a multiple-employer, cost-sharing public employee defined benefit pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. MPERS provides retirement, survivor and disability benefits to plan members and beneficiaries. Benefit provisions are established and may be amended by state statute.

The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, PO Box 30171, Lansing, Michigan 48909, by calling (517) 322-5103 or online at the State of Michigan's web-site: <http://www.michigan.gov/orsschools>.

Funding Policy

Effective January 1, 1987, Act 91 of the Public Acts of 1985 established a voluntary contribution to the Member Investment Plan (MIP). Employees first hired before January 1, 1990, made a one-time irrevocable election to contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 or later contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Basic Plan members make no contributions. The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefits on a cash disbursement basis.

The District was required by state statute to contribute 17.74% of covered compensation through September 30, 2007 and 16.72% of covered compensation to the Plan for the remainder of the year. The contribution requirements of plan members and the District are established by Michigan State statute and may be amended only by action of the State Legislature. The total amount contributed to MPERS for the years ended June 30, 2008, 2007, and 2006, were \$18,102, \$17,111, and \$14,804 respectively, equal to the required contributions for each year.

Other Post Employee Benefits

Retirees have the option of health coverage which is funded on a cash disbursement basis by the employers. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPERS with the balance deducted from the monthly pension.

Pension recipients are eligible for fully paid Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing Plan coverage with the following exceptions:

- Retirees not yet eligible for Medicare coverage pay an annual amount equal to Medicare Part B premiums.
- Retirees with less than 30 years of service, who terminate employment after October 31, 1980 with the vested deferred benefits, are eligible for partially employer paid health benefit coverage (no payment if less than 21 years of service).

The District is not responsible for the payment of retirement benefits or post-employment benefits which is the responsibility of the State of Michigan.

ELM RIVER TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - June 30, 2008

NOTE H -RECONCILIATION OF MDE GRANT REPORTS

The amounts reported as current payments on MDE grant reports prepared by the State of Michigan, reconcile with the federal revenue on the Governmental Funds - Statement of Revenues, Expenditures and Changes in Fund Balances on page 15 as follows:

Total current payments per MDE Reports	\$	6,110
Plus: USDA Commodities received		483
Title I transferred from another district		2,064
Small Rural School Achievement		18,076
Total Federal Financial Assistance	\$	<u>26,733</u>

The School District expended less than \$500,000 in Federal awards during the fiscal year ended June 30, 2008 and is exempt from Federal Single Audit requirements, thus a schedule of federal financial assistance was not prepared.

NOTE I - CONTINGENT LIABILITIES

Risk Management

Elm River Township School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School District was unable to obtain general liability insurance at a cost it considered to be economically justifiable. Elm River Township School District joined together with other school districts currently operating a common risk management and insurance program. Elm River Township School District pays an annual premium to the pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$500,000 for each insured event.

Elm River Township School District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The School District is unable to provide an estimate of the amounts of additional assessments.

The MASB-SEG Property & Casualty Pool has published its own financial report for the year ended June 30, 2008, which can be obtained through the School District.

REQUIRED SUPPLEMENTAL FINANCIAL INFORMATION

ELM RIVER TOWNSHIP SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

For the Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance
	Original	Final	(GAAP Basis)	Final to Actual
REVENUES:				
Local sources	\$ 186,800	\$ 239,000	\$ 234,525	\$ (4,475)
Federal sources	25,000	25,000	22,002	(2,998)
TOTAL REVENUE	211,800	264,000	256,527	(7,473)
EXPENDITURES:				
Instruction	102,476	102,476	99,653	2,823
Supporting services	105,465	109,465	107,399	2,066
TOTAL EXPENDITURES	207,941	211,941	207,052	4,889
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	3,859	52,059	49,475	(2,584)
OTHER FINANCING SOURCES (USES)				
Incoming transfers - other schools	3,300	3,300	2,834	(466)
Operating transfers in (out)	(16,553)	(18,053)	(17,212)	841
Proceeds from sale of capital asset	-	-	102	102
Total other financing sources (uses)	(13,253)	(14,753)	(14,276)	477
NET CHANGE IN FUND BALANCE	<u>\$ (9,394)</u>	<u>\$ 37,306</u>	35,199	<u>\$ (2,107)</u>
FUND BALANCE - BEGINNING OF YEAR			93,340	
FUND BALANCE - END OF YEAR			<u>\$ 128,539</u>	

ELM RIVER TOWNSHIP SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
SCHOOL FOOD SERVICE FUND
For the Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance
	Original	Final	(GAAP Basis)	Final to Actual
REVENUES:				
Local sources	\$ 1,300	\$ 1,600	\$ 1,577	\$ (23)
State sources	1,600	1,600	1,778	178
Federal sources	4,600	4,600	4,731	131
TOTAL REVENUE	7,500	7,800	8,086	286
EXPENDITURES:				
Salaries	13,113	14,000	13,560	440
Employee benefits	3,534	3,834	3,498	
Purchase services	500	1,000	961	
Supplies, materials, and other	9,657	11,157	6,951	4,206
TOTAL EXPENDITURES	26,804	29,991	24,970	4,646
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(19,304)	(22,191)	(16,884)	4,932
OTHER FINANCING SOURCES (USES)				
Operating transfers in (out)	16,553	18,053	17,212	(841)
Proceeds from sale of capital asset	-	-	-	-
Total other financing sources (uses)	16,553	18,053	17,212	(841)
NET CHANGE IN FUND BALANCE	\$ (2,751)	\$ (4,138)	328	\$ 4,091
FUND BALANCE - BEGINNING OF YEAR			5,009	
FUND BALANCE - END OF YEAR			\$ 5,337	

OTHER SUPPLEMENTAL FINANCIAL INFORMATION

ELM RIVER TOWNSHIP SCHOOL DISTRICT
GENERAL FUND
SCHEDULES OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
Year Ended June 30, 2008

	BUDGET	ACTUAL	VARIANCE	2007
REVENUES:				
Local sources:				
Taxes:				
Current taxes	\$ 239,000	\$ 223,705	\$ (15,295)	\$ 179,279
Penalties & interest on delinquent taxes	-	-	-	1,597
Total taxes	239,000	223,705	(15,295)	180,876
Other local sources:				
Investment revenue	-	4,651	4,651	3,159
Contributions	-	-	-	4,029
Miscellaneous	-	6,169	6,169	6,243
Total other local sources	-	10,820	10,820	13,431
Total local sources	239,000	234,525	(4,475)	194,307
State sources:				
Restricted State Aid	-	-	-	104
Unrestricted State Aid	-	-	-	1938
Total state sources	-	-	-	2,042
Federal sources:				
Title I	-	2,064	2,064	3,399
Title V	-	34	34	87
Title II	-	1,828	1,828	1,820
REAP	25,000	18,076	(6,924)	18,055
Total federal sources	25,000	22,002	(2,998)	23,361
TOTAL REVENUES	264,000	256,527	(7,473)	219,710
EXPENDITURES:				
Instruction:				
Elementary School	80,325	79,357	968	72,148
Added needs:				
Compensatory education	22,151	20,296	1,855	21,454
Total instruction	102,476	99,653	2,823	93,602
Supporting Services:				
Instructional staff:				
Improvement of instruction	-	1,896	(1,896)	1,907
General administration	10,030	8,723	1,307	11,750
Business-fiscal services	40,567	39,274	1,293	37,384
Operation & maintenance	32,407	31,776	631	29,264
Pupil transportation	26,461	25,730	731	36,342
Total supporting services	109,465	107,399	2,066	116,647
TOTAL EXPENDITURES	211,941	207,052	4,889	210,249

ELM RIVER TOWNSHIP SCHOOL DISTRICT
GENERAL FUND
SCHEDULES OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES (Continued)
Year Ended June 30, 2008

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>	<u>2007</u>
EXCESS OF REVENUES OVER EXPENDITURES	52,059	49,475	(2,584)	9,461
OTHER FINANCING SOURCES (USES):				
Incoming transfers - other schools	3,300	2,834	(466)	3,282
Operating transfer out	(18,053)	(17,212)	841	(15,801)
Proceeds from sale of capital asset	<u>-</u>	<u>102</u>	<u>(102)</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(14,753)</u>	<u>(14,276)</u>	<u>477</u>	<u>(12,519)</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ 37,306</u>	35,199	<u>\$ (2,107)</u>	(3,058)
FUND BALANCE, BEGINNING OF YEAR		<u>93,340</u>		<u>96,398</u>
FUND BALANCE, END OF YEAR		<u>\$ 128,539</u>		<u>\$ 93,340</u>

ELM RIVER TOWNSHIP SCHOOL DISTRICT
SCHOOL FOOD SERVICE FUND
SCHEDULES OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
Year Ended June 30, 2008

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>	<u>2007</u>
REVENUES:				
Local sources:				
Food sales	\$ 1,600	\$ 1,577	\$ (23)	\$ 1,564
State sources	1,600	1,778	178	1,648
Federal sources:				
School lunch program	4,600	4,248	(352)	5,127
USDA entitlements	-	483	483	1,254
USDA bonus entitlements	-	-	-	27
Total federal sources	4,600	4,731	131	6,408
TOTAL REVENUES	7,800	8,086	286	9,620
EXPENDITURES:				
Salaries	14,000	13,560	440	12,746
Employee benefits	3,834	3,498	336	3,278
Purchase services	1,000	961	39	492
Supplies, materials, and other	11,157	6,951	4,206	6,671
TOTAL EXPENDITURES	29,991	24,970	5,021	23,187
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(22,191)	(16,884)	(4,735)	(13,567)
OTHER FINANCING SOURCES (USES)				
Operating transfers in (out)	18,053	17,212	841	15,801
NET CHANGE IN FUND BALANCE	\$ (4,138)	328	\$ (3,894)	2,234
FUND BALANCE, BEGINNING OF YEAR		5,009		2,775
FUND BALANCE, END OF YEAR		\$ 5,337		\$ 5,009



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for the Western Upper Peninsula

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Education
Elm River Township School District
Toivola, Michigan

We have audited the financial statements of the governmental activities and each major fund information of the Elm River Township School District as of and for the year then ended June 30, 2008 which collectively comprise the District's basic financial statements and have issued our report thereon dated October 24, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements is more than inconsequential and will not be prevented or detected by the District's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2008-1 through 2008-4 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will be not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2008-1 through 2008-4.

We noted certain matters that we reported to management of the Elm River Township School District in a separate letter dated October 24, 2008.

The Elm River Township School District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Elm River Township School District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the District School Board, others within the entity and is not intended to be and should not be used by anyone other than these specified parties.

Bruce A. Rukkila, CPA, PC

Certified Public Accountants

October 24, 2008

**ELM RIVER TOWNSHIP SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES**

For the Year Ended June 30, 2008

2008-1 – Preparation of Financial Statements in Accordance with GAAP

Criteria: All entities are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of management. The preparation of financial statements in accordance with GAAP requires internal controls over both recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and reporting government-wide financial statements, including related footnotes.

Condition: As is the case with many small entities, the Elm River Township School District has historically relied on its independent external auditors to assist in the preparation of the financial statements and footnotes as part of its external financial reporting process. Accordingly, the District's ability to prepare financial statements in accordance with GAAP is based, in part, on its external auditors, who cannot by definition be considered a part of the internal controls.

Cause: Due to the lack of knowledge, expertise and education relative to preparing GAAP financial statements possessed by the finance department, management has made the decision that it is in their best interest to out source the preparation of its annual financial statements to the auditors rather than incur the time and expense of obtaining the necessary training and expertise required for the District to perform this task internally.

Effect: As a result of this condition, the District lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

View of Responsible Officials: Elm River Township School District has evaluated the benefits of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the District to out source this task to its external auditors, and to carefully review the draft financials statements and notes prior to approving them and accepting responsibility for their content and presentation. We concur with this decision.

2008-2 - Segregation of Duties

Criteria: As stated in the *Accounting Procedures Manual for Local Units of Government in Michigan*, the functions of authorizations, record keeping, and custody of assets should be segregated where possible. Specifically, we would recommend that the District consider the following procedure:

- ▶ Receipt book be given to Treasurer when reviewing bank reconciliations.

Cause, Condition, and Effect: Limited staff size creates instances in which conflicting duties are performed by one individual. The District relies solely on its Business Manager for its general ledger accounting functions.

View of Responsible Officials: The District understands it needs to be aware of this situation and maintain oversight of its financial records. The District implemented review procedures of bank reconciliations during the 2007-2008 school year and also provides various detailed financial reports to the board monthly.

**ELM RIVER TOWNSHIP SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES**

For the Year Ended June 30, 2008

2008-3 – Adjustments Proposed by the Auditor

Criteria: The District is responsible for the reconciliation of all general ledger accounts for the purpose of creating a reasonably adjusted trial balance, from which the basic financial statements are derived.

Condition: Auditor identified journal entries to be posted to the District's financial records during the audit. The entries were needed to adjust year-end balances to be in conformity with generally accepted accounting principles.

Effect: We are pleased to assist in adjusting the District's general ledger, but are also required to communicate our part in completing the District's accounting records. A number of these journal entries are related to property taxes, intergovernmental activities, accounts payable, accounts receivable, and items required for the full-accrual presentation of the government-wide statements.

View of Responsible Officials: The District will ensure all general ledger accounts are reconciled on a timely basis with review and approval by the Board Treasurer.

2008-4 – Capital Assets Records Maintained by the Auditor

Criteria: Purchases, additions, disposals, and sale of assets must have prior approval from the appropriate officials. In addition, the financial statements must accurately report all capital assets and accumulated depreciation along with capital expenditures and depreciation expense.

Condition, Cause and Effect: The District has relied on its external auditor to maintain and update capital assets. Management has made the decision that it is in their best interest to have their external auditor maintain capital assets and compute depreciation rather than incur the time and expense of obtaining the necessary training and expertise required for the District to perform this task internally.

View of Responsible Officials: A copy of the capital asset information will be provided to the District, which will allow the District to assume this responsibility in the future.



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October 24, 2008

To the Board of Education
Elm River Township School District
Toivola, Michigan

We have audited the financial statements of the governmental activities and each major fund information of the Elm Township School District for the year ended June 30, 2008, and have issued our report thereon dated October 24, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and *Government Auditing Standards*

As stated in our engagement letter dated July 31, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material aspects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal controls of the Elm River Township School District. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal controls.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatements, we performed test of the Elm River Township School District's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Audit Findings

Qualitative Aspects of Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Elm River Township School District are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2008. We noted no transactions entered into by the Elm River Township School District during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements is current judgments. Management's estimate of the useful lives of fixed assets, used to calculate depreciation, is based on the estimated useful lives of certain classes of assets. We evaluated the key factors and assumptions used to develop the useful lives to determine that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 24, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Elm River Township School District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Elm River Township School District Board and is not intended to be and should not be used for any other purpose.

It has been a pleasure to provide audit services to the Elm River Township School District. Management was prepared for the audit, providing us with all supporting documents requested. Management was friendly, conscientious and very helpful.

We appreciate your business, thank you.

Bruce A. Rukkila, CPA, PC

Certified Public Accountants

In planning and performing our audit of the financial statements of the Elm River Township School District, as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Elm River Township School District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

INTERNAL CONTROL COMMENTS AND RECOMMENDATIONS

2008-1 – Preparation of Financial Statements in Accordance with GAAP

Criteria: All entities are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of management. The preparation of financial statements in accordance with GAAP requires internal controls over both recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and reporting government-wide financial statements, including related footnotes.

Condition: As is the case with many small entities, the Elm River Township School District has historically relied on its independent external auditors to assist in the preparation of the financial statements and footnotes as part of its external financial reporting process. Accordingly, the District's ability to prepare financial statements in accordance with GAAP is based, in part, on its external auditors, who cannot by definition be considered a part of the internal controls.

Cause: Due to the lack of knowledge, expertise and education relative to preparing GAAP financial statements possessed by the finance department, management has made the decision that it is in their best interest to out source the preparation of its annual financial statements to the auditors rather than incur the time and expense of obtaining the necessary training and expertise required for the District to perform this task internally.

Effect: As a result of this condition, the District lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

View of Responsible Officials: Elm River Township School District has evaluated the benefits of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the District to out source this task to its external auditors, and to carefully review the draft financials statements and notes prior to approving them and accepting responsibility for their content and presentation. We concur with this decision.

2008-2 - Segregation of Duties

Criteria: As stated in the *Accounting Procedures Manual for Local Units of Government in Michigan*, the functions of authorizations, record keeping, and custody of assets should be segregated where possible. Specifically, we would recommend that the District consider the following procedure:

- ▶ Receipt book be given to Treasurer when reviewing bank reconciliations.

Cause, Condition, and Effect: Limited staff size creates instances in which conflicting duties are performed by one individual. The District relies solely on its Business Manager for its general ledger accounting functions.

View of Responsible Officials: The District understands it needs to be aware of this situation and maintain oversight of its financial records. The District implemented review procedures of bank reconciliations during the 2007-2008 school year and also provides various detailed financial reports to the board monthly.

2008-2 – Adjustments Proposed by the Auditor

Criteria: The District is responsible for the reconciliation of all general ledger accounts for the purpose of creating a reasonably adjusted trial balance, from which the basic financial statements are derived.

Condition: Auditor identified journal entries to be posted to the District's financial records during the audit. The entries were needed to adjust year-end balances to be in conformity with generally accepted accounting principles.

Effect: We are pleased to assist in adjusting the District's general ledger, but are also required to communicate our part in completing the District's accounting records. A number of these journal entries are related to property taxes, intergovernmental activities, accounts payable, accounts receivable, and items required for the full-accrual presentation of the government-wide statements.

View of Responsible Officials: The District will ensure all general ledger accounts and are reconciled on a timely basis with review and approval by the Board Treasurer.

2008-3 – Capital Assets Records Maintained by the Auditor

Criteria: Purchases, additions, disposals, and sale of assets must have prior approval from the appropriate officials. In addition, the financial statements must accurately report all capital assets and accumulated depreciation along with capital expenditures and depreciation expense.

Condition, Cause and Effect: The District has relied on its external auditor to maintain and update capital assets. Management has made the decision that it is in their best interest to have their external auditor maintain capital assets and compute depreciation rather than incur the time and expense of obtaining the necessary training and expertise required for the District to perform this task internally.

View of Responsible Officials: A copy of the capital asset information will be provided to the District, which will allow the District to assume this responsibility in the future.

ADDITIONAL COMMENTS AND RECOMMENDATIONS

During our audit we became aware of opportunities for strengthening internal controls and operating efficiencies. The following items summarize our comments and suggestions regarding those matters.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various personnel, and we will be pleased to discuss them in further detail at your convenience to perform any addition study of these matters, or to assist you in implementing the recommendations.

Account Authorization

It was noted during the course of the audit that the CD opened at Citizen's Bank was not approved by the Board and noted in the minutes. We recommend that all opening and closing of accounts be approved and noted in the Board minutes.